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SUBJECT: A/S WAYNE'S MEETING WITH AHMED MOHAMED ALI  
AL-KHAWI, CHAIRMAN, YEMEN BANKING ASSOCIATION

1. (SBU) Summary: During a bilateral meeting held June 25 on the margins of the International Arab Banking Summit in Montreal, A/S Anthony Wayne and Ahmed Mohamed Ali al-Khawi, Chairman of the Yemen Banking Association (YBA), discussed the fight against terrorist financing and Yemen's economic situation, with a focus on the need to strengthen Yemen's commercial court system. End summary.

USG Action

2. (U) Action requests for Mr. Al-Khawi are in para 4 on creating a facility for sharing information on bank clients, and para 9 on ways to support reform of the commercial court system under the Middle East Partnership Initiative (MEPI).

Procedures to Counter Terrorist Financing are in Place

3. (U) A/S Wayne commended Yemen on its help thus far in the war on terrorism and asked how the new procedures to combat terrorist financing are working. Al-Khawi responded that the restrictions on transfers were initially difficult but now are going well. He confirmed that Yemeni bank implementation of "know-your-customer" efforts is proceeding fairly well. Banks are very pleased with the system, as it is helping them to avoid many bad debts. However, many of Yemen's banks are not well versed in how to implement this and other elements of the new anti-money laundering law, and their personnel will need assistance.

4. (U) Al-Khawi said the YBA and the Central Bank are thinking of creating an information sharing facility for banks, as some of the smaller banks have difficulty collecting information. Although there is overall support for the idea, a few banks are reluctant to share customer information. A/S Wayne asked if Yemen has a financial intelligence unit, and said he thought the USG could provide guidance on establishing information sharing procedures to facilitate know-your-customer efforts. Perhaps Yemen's banks could link into a regional information-sharing arrangement? Al-Khawi said the YBA is planning to introduce checks and rial-denominated credit cards, initiatives that will also support know-your-customer initiatives.

Anti-Money Laundering Law being Implemented

5. (U) When asked about other aspects of the banks' ability to implement the new anti-money laundering regime, al-Khawi noted that the Union of Arab Banks is conducting courses on implementing the law. A/S Wayne reiterated the USG's desire to be helpful, saying it is important that both sides understand the difference in procedures and noting that he encourages USG officials to visit Yemen. Al-Khawi thought that would be useful.

Financial Intermediation Still Weak

6. (U) A/S Wayne asked about the availability of capital, especially for small and medium firms. Al-Khawi acknowledged the problem, but said the World Bank has been supporting establishment of an institution making loans to SMEs for the past 6 years, and it is doing very well.

No Increase in Informal Transfers

7. (U) There are hawalas in Yemen, but use of the system is not growing. It peaked before the first Gulf War, and most transfers now come through banks. Most Yemeni workers that repatriated in the early 1990s have not returned to jobs abroad.

8. (U) Al-Khawi said Yemen's economy is improving slowly. The Yemeni rial is strong and there is no deficit in the ROYG balance sheet. Yemen has 16 banks, three of which (including Saba) are Islamic.

Commercial Court Reform is Essential

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19. (SBU) When asked how the USG could be helpful, al-Khawi stressed the urgent need for experts in Arab law to assist in reforming the commercial courts. A visiting Sudanese expert was effective for several years, but the system reverted when he left. Since then, Yemen has endured four years of failed efforts to reform the courts. Resistance to improving the commercial court system is probably due to corruption, and change will require political commitment from the top. The uncertain legal system means banks try to minimize risk by lending only to large, well-known clients. A/S Wayne mentioned the possibility of a program run by the Commerce department, using Arab-American experts, that has been successful in Algeria, Egypt and Tunisia. The program could be included as part of the Middle East Partnership Initiative.

Financial Infrastructure still Shaky  
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10. (SBU) Al-Khawi identified the lack of a land title system as a major obstacle to investment. Yemenis abroad have funds, but hesitate to invest. On a related topic, long-time efforts to introduce a financial market (stock exchange) are stalled and even he, as head of the technical committee to establish the market, does not know why the ROYG has stopped the initiative cold. Some say it is too early to establish a stock exchange in Yemen, but he does not know the source of the sudden high-level opposition.

Bio  
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11. (U) Al-Khawi was head of the Yemen Bank for Reconstruction and Development and is now one of its advisors. His English is fluent but restrained, and he weighs his words.

12. (U) A/S Wayne cleared this cable.

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